



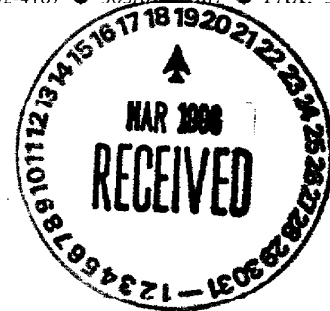
IPAMS

Independent Petroleum Association of Mountain States

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March 18, 1996

SENT VIA FAX #231-3194

Mr. David S. Guzy, Chief
Rules and Procedures Staff
Minerals Management Service
Royalty Management Program
P. O. Box 25165, MS 3101
Denver, Colorado 80225-0165



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Re: Advanced Notice of Proposed
Rulemaking - Valuation of
Oil from Federal and Indian
Leases.

Dear Mr. Guzy:

The Independent Petroleum Association of Mountain States (IPAMS) submits its comments to the above notice which appeared in the Federal Register for December 20, 1995, 60 Fed. Reg. No. 244. IPAMS appreciates the opportunity to provide comments. IPAMS is a non-profit, non-partisan trade association representing the interests of over 750 independent oil and natural gas producers, royalty owners, industry consultants, and service/supply companies operating in a ten-state Rocky Mountain area: New Mexico, Wyoming, Colorado, Montana, North Dakota, Utah, Nebraska, South Dakota, Nevada, and Arizona.

MMS has requested answers to the following questions:

1. *Are there indices or other published prices that better reflect actual market value than oil postings?*

IPAMS does not believe that other indices or published prices are a better reflection of actual market value.

2. *Where prices posted by individual companies differ considerably within the same field or area, how are these differences best reconciled?*

The posted price represents a benchmark price that differs in a given area but the actual price paid at the wellhead should be equivalent after taking into account adjustments from oil purchasing companies that are actively purchasing similar qualities and quantities of crude in the given area.

Mr. David S. Guzy, Chief
March 18, 1996
Page Two

3. *Are there fixed "reference" prices against which quality, transportation, and other adjustments can be made to develop reasonable royalty values (e.g. West Texas Intermediate)?*

No, the price originates at the wellhead depending on the quality and location. All postings are an indication of benchmark prices of 40° API crude referenced to Cushing, Oklahoma. Location differentials are placed in certain areas as determined by market demand.

4. *Are spot prices of sufficient reliability and do they cover wide enough geographic areas to use as value bases?*

No. Spot prices defined as the current month futures contract price generally tracks the WTI posted price with a market differential that relates to supply and demand.

5. *Do oil futures provide meaningful basis for royalty valuation?*

No. Oil futures prices represent a benchmark price which is a price that the market believes that crude will be worth at that particular time. For current royalty valuation it is not a good method because it reflects the time value of money and perceived market conditions that may or may not exist at such time as the futures contract becomes the spot month.

6. *What alternative valuation method(s) best balance the needs to (a) reflect the market value of oil as sold, exchanged or otherwise disposed of and (b) maximize administrative efficiency for all concerned?*

IPAMS believes that there is no alternative valuation method that accurately reflects the market value of crude oil at the wellhead other than posted prices adjusted for quality, location and market demand.

IPAMS is strongly opposed to any system of valuation (such as the proposed gas valuation regulations) which introduces burdensome and complicated methodologies similar to an index pricing system and a safety net. Reference is made to IPAMS comments to the Proposed Gas Valuation Regulations which were filed with MMS February 5, 1996, for a complete discussion of IPAMS opposition to that proposal.

Mr. David S. Cuzy, Chief
March 18, 1996
Page Three

Therefore, we believe the existing system of posted prices should not be changed. However, if MMS decides to proceed with any changes, we request notification so we can participate.

Sincerely,

A handwritten signature in dark ink, appearing to read "George H. Fancher, Jr.", with a stylized, cursive script.

George H. Fancher, Jr.
Chairman
IPAMS Crude Oil Committee

GHF:j